



**UMZIMKHULU LOCAL MUNICIPALITY  
ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## GENERAL INFORMATION

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<b>Legal form of entity</b>	Local municipality
<b>Members of the Council</b>	
Mayor	Cllr M B Mpabanga
Deputy mayor	Cllr S Nkala
Speaker	Cllr S S Thobela
Chief whip	Cllr X Tshazi
Member of the executive committee	Cllr B Cira
Member of the executive committee	Cllr M Swaartbooi
Member of the executive committee	Cllr S Ngcongco
Member of the executive committee	Cllr B J Lukakayi
Member of the executive committee	Cllr M Dhazibe
<b>Municipal Manager (MM)</b>	Mr Z S Sikhosana
<b>Chief Finance Officer (CFO)</b>	Mr Z Cezu
<b>Grading of local authority</b>	3
<b>Auditors</b>	Auditor General of South Africa
<b>Bankers</b>	First National Bank
<b>Registered office</b>	139 Main Street Umzimkhulu 3297
<b>Physical address</b>	139 Main Street Umzimkhulu 3297
<b>Postal address</b>	P O Box 53 Umzimkhulu 3297
<b>Telephone number</b>	039 259 5000
<b>Fax number</b>	039 259 0427
<b>E-mail address</b>	info@umzimkhululm.gov.za

**UMZIMKHULU LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

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The reports and statements set out below comprise the annual financial statements presented to the council:

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# **UMZIMKHULU LOCAL MUNICIPALITY**

**ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

## **APPROVAL OF ANNUAL FINANCIAL STATEMENTS**

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I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 44 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 23 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

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**Mr Z S Sikhosana**  
**Municipal Manager**

**31 August 2012**

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## STATEMENT OF FINANCIAL POSITION

FIGURES IN RAND	NOTES	2012	2011
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	2	37 890 735	32 969 804
Receivables from exchange transactions	3	34 128	131 100
Other receivables from non-exchange transactions	4	1 017 766	-
Receivables from non exchange transactions	5	5 316 178	7 032 546
VAT receivable	6	1 957 289	1 859 306
		<b>46 216 096</b>	<b>41 992 756</b>
<b>Non-Current Assets</b>			
Investment property	7	4 466 656	4 496 822
Property, plant and equipment	8	289 748 676	261 036 746
Intangible assets	9	119 910	195 108
		<b>294 335 242</b>	<b>265 728 676</b>
<b>Total Assets</b>		<b>340 551 338</b>	<b>307 721 432</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	10	7 955 610	4 899 572
Unspent conditional grants and receipts	11	6 704 612	6 519 986
Bank overdraft	2	-	483 132
		<b>14 660 222</b>	<b>11 902 690</b>
<b>Non-Current Liabilities</b>			
Provisions	12	1 279 621	1 155 214
<b>Total Liabilities</b>		<b>15 939 843</b>	<b>13 057 904</b>
<b>Net Assets</b>		<b>324 611 495</b>	<b>294 663 528</b>
<b>NET ASSETS</b>			
Revaluation reserve	13	84 989 929	107 340 500
Housing operating account	14	29 051 938	28 032 032
Accumulated surplus	15	210 569 628	159 290 996
<b>Total Net Assets</b>		<b>324 611 495</b>	<b>294 663 528</b>

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## STATEMENT OF FINANCIAL PERFORMANCE

FIGURES IN RAND	NOTES	2012	2011
<b>Revenue</b>			
Property rates	16	4 005 670	7 438 448
Service charges	17	1 148 332	651 550
Government grants and subsidies	18	148 808 469	99 377 334
Interest earned - external investments	19	2 666 967	795 161
Interest earned - outstanding receivables		542 928	425 436
Other revenue	20	1 391 456	563 118
Motor vehicle licences		639 842	488 270
Public contributions and donations - container bins		449 710	-
Rental of facilities and equipment	21	593 033	492 190
<b>Total Revenue</b>		<b>160 246 407</b>	<b>110 231 507</b>
<b>Expenditure</b>			
Employee related costs	22	(27 343 283)	(22 377 976)
Remuneration of councillors	23	(10 577 834)	(8 463 574)
Debt impairment	24	(4 333 531)	(3 317 049)
Depreciation and amortisation	25	(30 700 904)	(26 096 539)
Finance costs	26	(124 407)	(50 116)
Repairs and maintenance		(4 670 927)	(4 612 635)
Loss on scrapping of assets		(37 253)	-
General expenses	29	(52 563 706)	(36 459 468)
<b>Total Expenditure</b>		<b>(130 351 845)</b>	<b>(101 377 357)</b>
<b>Surplus for the year</b>		<b>29 894 562</b>	<b>8 854 150</b>

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand	Revaluation reserve	Housing operating account	Total reserves	Accumulated surplus	Total net assets
<b>Balance at 01 July 2010</b>	<b>132 296 709</b>	<b>26 923 707</b>	<b>159 220 416</b>	<b>129 988 272</b>	<b>289 208 688</b>
Changes in net assets					
Surplus for the year	-	-	-	8 854 150	8 854 150
Interest earned on investments	-	1 108 325	1 108 325	-	1 108 325
Movable asset adjustments	-	-	-	(1 053 025)	(1 053 025)
WCA expenditure paid in the current year relating to prior periods	-	-	-	(1 171 776)	(1 171 776)
Offsetting of depreciation	(24 956 210)	-	(24 956 210)	24 956 210	-
Council approval to write off debtors take-on balances	-	-	-	(2 194 956)	(2 194 956)
Portion of accrued bonus raised not paid out	-	-	-	16 740	16 740
Creditors adjustments	-	-	-	(234 494)	(234 494)
Clearing bank reconciliation variances	-	-	-	(234 140)	(234 140)
Councillors cellphone balances no longer owing	-	-	-	(96 654)	(96 654)
Accrual adjustments	-	-	-	133 640	133 640
Write off of accounts with no movement	-	-	-	328 699	328 699
Additional depreciation of Esikheweni river crossing	-	-	-	(1 670)	(1 670)
Total changes	(24 956 210)	1 108 325	(23 847 885)	29 302 724	5 454 839
<b>Balance at 01 July 2011</b>	<b>107 340 500</b>	<b>28 032 032</b>	<b>135 372 532</b>	<b>159 290 996</b>	<b>294 663 528</b>
Changes in net assets					
Surplus for the year	-	-	-	29 894 562	29 894 562
Interest on housing operating account transferred to accumulated surplus	-	1 019 906	1 019 906	(1 019 906)	-
Offsetting of depreciation	(22 350 571)	-	(22 350 571)	22 350 571	-
Reversal of UIF company contribution	-	-	-	53 405	53 405
Total changes	(22 350 571)	1 019 906	(21 330 665)	51 278 632	29 947 967
<b>Balance at 30 June 2012</b>	<b>84 989 929</b>	<b>29 051 938</b>	<b>114 041 867</b>	<b>210 569 628</b>	<b>324 611 495</b>
<b>NOTES</b>	13	14		15	

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## CASH FLOW STATEMENT

FIGURES IN RAND	NOTES	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>			
Receipts from ratepayers and other services		8 840 920	9 447 570
Government grants and subsidies		148 808 469	99 377 334
Interest income		2 666 967	795 161
		<u>160 316 356</u>	<u>109 620 065</u>
<b>Payments</b>			
Employee costs		(37 921 117)	(30 841 550)
Suppliers		(57 646 446)	(35 938 467)
		<u>(95 567 563)</u>	<u>(66 780 017)</u>
<b>Net cash flows from operating activities</b>	30	<b><u>64 748 793</u></b>	<b><u>42 840 048</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net movement on property, plant and equipment	8	(59 353 268)	(38 901 110)
Loss from scrapping of property, plant and equipment	8	21 051	-
Net movement on intangible assets	9	(12 513)	(3 793)
<b>Net cash flows from investing activities</b>		<b><u>(59 344 730)</u></b>	<b><u>(38 904 903)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>5 404 063</b>	<b>3 935 145</b>
Cash and cash equivalents at the beginning of the year		32 486 672	28 551 527
<b>Cash and cash equivalents at the end of the year</b>	2	<b><u>37 890 735</u></b>	<b><u>32 486 672</u></b>



# **UMZIMKHULU LOCAL MUNICIPALITY**

**ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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### **1. BASIS OF ACCOUNTING**

#### **1.1 BASIS OF PRESENTATION**

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

#### **1.2 PRESENTATION CURRENCY**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### **1.3 GOING CONCERN ASSUMPTION**

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

#### **1.4 COMPARATIVE INFORMATION**

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

#### **1.5 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

The following GRAP standards have been issued and have not been early adopted by the municipality:

GRAP 8 Interest in Joint Ventures - issued August 2006

GRAP 18 Segment Reporting - issued March 2005

GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008

GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007

GRAP 103 Heritage Assets - issued July 2008

The Minister of Finance announced that the application of GRAP 21, GRAP 23, GRAP 24, GRAP 26, GRAP 103 will be effective for period starting after 1 April 2012. All other standards as listed above will only be effective when a date is announced by the Minister of Finance.

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

## **Summary of Significant Accounting Policies**

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### **2. PROPERTY, PLANT AND EQUIPMENT**

#### **2.1 INITIAL RECOGNITION**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

#### **2.2 SUBSEQUENT MEASUREMENT - COST AND REVALUATION MODEL**

Subsequent to initial recognition, items of property, plant and equipment such as Other fixed assets are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

All other items of property, plant and equipment such as Infrastructure, Community and Buildings are carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset

The municipality shall revalue all its assets that are under revaluation model every 5 years.

#### **2.3 DEPRECIATION AND IMPAIRMENT**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## Summary of Significant Accounting Policies

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### PROPERTY, PLANT AND EQUIPMENT (continued)

Item	Average useful life
Buildings	30-50 years
Infrastructure	
• Roads and paving	30 years
• Pedestrian malls	30 years
• Dam	30 years
Community	
• Buildings	30 years
• Recreational facilities	20-30 years
• Security	5 years
Other property, plant and equipment	
• Specialist vehicles	10 years
• Other vehicles	5 years
• Office equipment	3-7 years
• Furniture and fittings	7-10 years
• Landfill site	15 years

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

### 2.4 DERECOGNITION

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

## 3. INTANGIBLE ASSETS

### 3.1 INITIAL RECOGNITION

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

### 3.2 SUBSEQUENT MEASUREMENT - COST MODEL

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## Summary of Significant Accounting Policies

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### INTANGIBLE ASSETS (continued)

#### 3.3 AMORTISATION AND IMPAIRMENT

Amortisation is charged so as to write off the cost of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	3-5 years
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The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

#### 3.4 DERECOGNITION

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### 4. INVESTMENT PROPERTY

#### 4.1 INITIAL RECOGNITION

Investment property includes property (land or a building, or part of a building, or both land or buildings held under an operating lease held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

#### 4.2 SUBSEQUENT MEASUREMENT - COST MODEL

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Investment property	30 years
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## **Summary of Significant Accounting Policies**

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### **5. FINANCIAL INSTRUMENTS**

#### **5.1 INITIAL RECOGNITION**

Financial instruments are initially recognised at fair value.

#### **5.2 SUBSEQUENT MEASUREMENT**

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost. The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

##### **5.2.1 INVESTMENTS**

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

##### **5.2.2 TRADE AND OTHER RECEIVABLES**

Receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in the statement of financial performance within operating expenses. When a receivable is uncollected, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of financial performance.

##### **5.2.3 PAYABLES AND BORROWINGS**

Financial liabilities consist of payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

##### **5.2.4 CASH AND CASH EQUIVALENTS**

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

### **6. UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## Summary of Significant Accounting Policies

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### 7. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 8. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 9. PROVISIONS AND CONTINGENCIES

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 33.

## **Summary of Significant Accounting Policies**

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### **10. LEASES**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### **10.1 MUNICIPALITY AS LESSEE**

Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

#### **10.2 MUNICIPALITY AS LESSOR**

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

### **11. REVENUE**

#### **11.1 REVENUE FROM EXCHANGE TRANSACTIONS**

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered, the value of which approximates the consideration received or receivable.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

#### **11.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS**

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

#### **11.3 GRANTS, TRANSFERS AND DONATIONS**

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

## **Summary of Significant Accounting Policies**

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### **12. BORROWING COSTS**

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

### **13. IMPAIRMENT OF ASSETS**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

### **14. VALUE ADDED TAX**

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec15(2)(a) of the Value-Added Tax Act No 89 of 1991.

### **15. EMPLOYEE BENEFITS**

#### **Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected costs of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### **Retirement benefits**

Whilst employees and councillors are employed by the municipality, the municipality contributes to their medical aid and pension funds. On termination, resignation or retirement of employees and councillors the municipality no longer contributes to the medical aid and pension funds on their behalf and thus there are no post employment benefits.



# **UMZIMKHULU LOCAL MUNICIPALITY**

**ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

## **Summary of Significant Accounting Policies**

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### **16. HOUSING OPERATING ACCOUNT**

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

### **17. RELATED PARTIES**

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND	2012	2011
<b>2. CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents consist of:		
Bank balances	2 503 006	-
Short-term deposits	35 387 729	32 969 804
Bank overdraft	-	(483 132)
	<b>37 890 735</b>	<b>32 486 672</b>
Current assets	37 890 735	32 969 804
Current liabilities	-	(483 132)
	<b>37 890 735</b>	<b>32 486 672</b>

The municipality's primary bank account is a public sector cheque account with First National Bank. The account is held at the Ixopo branch and the account number is 5255 573 0913.

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
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### 2. CASH AND CASH EQUIVALENTS (continued)

#### Primary bank account details

Bank name/account type and number	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
First National Bank - Cheque account - 5255 573 0913	2 503 006	(483 132)	556 090	2 503 006	(483 132)	556 090
Clydesdale Housing - First National Bank - 62331947418 - Business Call Account	12 424 283	11 921 443	-	12 424 283	11 921 443	-
Ext 5&6 Housing Project - First National Bank - 62023990907 - Business Call Account	1 588 028	1 537 168	-	1 588 028	1 537 168	-
Ibisi Housing Projects - First National Bank - 62331935950 - Business Call Account	1 040 077	1 005 086	-	1 040 277	1 002 086	-
MIG Grant - First National Bank - 62123938055 - Business Call Account	1 000	450 992	-	1 000	450 992	-
MSIG - First National Bank - 62127055045 - Business Call Account	1 294	46 710	-	1 294	46 710	-
Neighbourhood Grant - First National Bank - 62174352525 - Business Call Account	5 195 667	380 874	-	5 195 667	380 874	-
Electrification - First National Bank - 62174363508 - Business Call Account	1 447 270	369 959	-	1 447 070	369 959	-
Riverside Housing Project Phase 1 - First National Bank - 62023990593 - Business Call Account	830 689	808 922	-	830 689	808 922	-
Riverside Phase 2 - First National Bank - 62331950495 - Business Call Account	4 260 317	4 110 473	-	4 260 317	4 110 473	-
Reitvl/City Surv Account - First National Bank - 62123938104 - Business Call Account	699 961	681 589	-	699 961	681 589	-
Rural Housing Project - First National Bank - 62331949422 - Business Call Account	6 004 425	5 763 394	-	6 004 425	5 763 394	-

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand				2012	2011
<b>2. CASH AND CASH EQUIVALENTS (continued)</b>					
32 Day Ex Main Account - First National Bank - 62132172355 - Business Call Account	1 664 598	5 813 074	-	1 664 598	5 813 074
Sport Facility Grant - First National Bank - 62125140129 - Business Call Account	230 120	80 120	-	230 120	80 120
<b>Total</b>	<b>37 890 735</b>	<b>32 486 672</b>	<b>556 090</b>	<b>37 890 735</b>	<b>32 483 672</b>
<b>3. RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>					
Other receivables				34 128	490 815
Funds recoverable				-	123 872
Provision for bad debts				-	(490 815)
Staff debtor recoveries				-	7 228
				<b>34 128</b>	<b>131 100</b>
<b>4. OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS</b>					
Government grants - MIG over expenditure				1 017 096	-
Overpayment of salaries				670	-
				<b>1 017 766</b>	<b>-</b>
<b>5. RECEIVABLES FROM NON EXCHANGE TRANSACTIONS</b>					
<b>Gross balances</b>					
Rates and refuse				12 431 888	18 691 079
<b>Less: Provision for debt impairment</b>					
Rates and refuse				(7 115 710)	(11 658 533)
<b>Net balance</b>					
Rates and refuse				5 316 178	7 032 546
<b>Rates and refuse</b>					
Current (0 -30 days)				503 353	671 375
31 - 60 days				445 122	658 556
61 - 90 days				381 941	617 256
91 - 120 days				409 244	601 279
121 - 365 days				10 692 228	16 142 613
				<b>12 431 888</b>	<b>18 691 079</b>

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
<b>5. RECEIVABLES FROM NON EXCHANGE TRANSACTIONS (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	222 107	217 368
31 - 60 days	205 410	210 821
61 - 90 days	199 982	209 839
91 - 120 days	207 609	197 256
121 - 365 days	6 661 511	5 974 327
	<b>7 496 619</b>	<b>6 809 611</b>
<b>Industrial/commercial</b>		
Current (0 -30 days)	128 715	101 079
31 - 60 days	98 239	101 039
61 - 90 days	97 936	100 998
91 - 120 days	119 523	101 076
121 - 365 days	2 080 367	2 300 024
	<b>2 524 780</b>	<b>2 704 216</b>
<b>National and provincial government</b>		
Current (0 -30 days)	178 948	119 411
31 - 60 days	161 848	118 935
61 - 90 days	80 592	75 690
91 - 120 days	78 791	75 227
121 - 365 days	1 910 310	1 820 260
	<b>2 410 489</b>	<b>2 209 523</b>
<b>Total</b>		
Current (0 -30 days)	529 769	437 858
31 - 60 days	465 497	430 794
61 - 90 days	378 510	386 527
91 - 120 days	405 922	373 558
121 - 365 days	10 652 188	17 062 342
	12 431 886	18 691 079
Less: Provision for debt impairment	(7 115 708)	(11 658 533)
	<b>5 316 178</b>	<b>7 032 546</b>
<b>Reconciliation of debt impairment provision</b>		
Balance at beginning of the year	(11 658 533)	(8 341 483)
Removing write offs	7 446 894	-
Increase bad debt provision	(2 904 071)	(3 317 050)
<b>Balance at end of the year</b>	<b>(7 115 710)</b>	<b>(11 658 533)</b>
<b>6. VAT RECEIVABLE</b>		
Vat	1 957 289	1 859 306

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
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### 7. INVESTMENT PROPERTY

	2012			2011		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	4 919 152	(452 496)	4 466 656	4 919 152	(422 330)	4 496 822

#### Reconciliation of investment property - 2012

	Opening balance	Depreciation	Total
Investment property	4 496 822	(30 166)	4 466 656

#### Reconciliation of investment property - 2011

	Opening balance	Depreciation	Total
Investment property	4 526 989	(30 167)	4 496 822

### 8.1 Rental income from investment property

Direct operating expenses from rental generating property	593 033	486 067
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### 8.2 Details of property

#### Land - Shopping Complex

Erven 229, 735 and 736

Duration : 50 years

Termination date : 18 June 2046

Payments : Year one 8% of net rentals, Year two 9% of net rentals, Remainder : 10% of net rentals.

- Purchase price: 1 July 1997

4 014 160      4 014 160

#### Buildings - Hotel and House

Erven 231 and 232

Duration : 50 years

Termination date : 30 November 2061

Payments : Monthly in advance

- Purchase price: 1 December 2008

- Depreciation

904 992      904 992

(452 496)      (422 330)

452 496      482 662

#### Total Land and Buildings

4 466 656      4 496 822

Rental income from income generating property is R120 000 per annum.

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

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### 8. PROPERTY, PLANT AND EQUIPMENT

	2012			2011		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land and buildings	56 425 227	(5 408 104)	51 017 123	55 463 205	(3 538 305)	51 924 900
Infrastructure	215 274 906	(71 753 665)	143 521 241	184 072 289	(44 578 556)	139 493 733
Community	20 033 528	(1 553 738)	18 479 790	7 123 954	(793 975)	6 329 979
Other fixed assets	5 789 003	(3 351 889)	2 437 114	5 421 152	(3 096 327)	2 324 825
Capital work in progress	71 345 584	-	71 345 584	58 015 485	-	58 015 485
Heritage	2 947 824	-	2 947 824	2 947 824	-	2 947 824
<b>Total</b>	<b>371 816 072</b>	<b>(82 067 396)</b>	<b>289 748 676</b>	<b>313 043 909</b>	<b>(52 007 163)</b>	<b>261 036 746</b>

#### Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Total
Land and buildings	51 924 900	2 102 374	-	(1 140 351)	(1 869 800)	51 017 123
Infrastructure	139 493 733	29 543 968	-	1 658 648	(27 175 108)	143 521 241
Community	6 329 979	12 909 574	-	-	(759 763)	18 479 790
Other fixed assets	2 324 825	981 975	(54 997)	(33 025)	(781 664)	2 437 114
Capital work in progress	58 015 485	13 330 099	-	-	-	71 345 584
Heritage	2 947 824	-	-	-	-	2 947 824
	<b>261 036 746</b>	<b>58 867 990</b>	<b>(54 997)</b>	<b>485 272</b>	<b>(30 586 335)</b>	<b>289 748 676</b>

#### Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Other changes, movements	Depreciation	Total
Land and buildings	53 344 781	404 974	-	(1 824 855)	51 924 900
Infrastructure	145 382 369	17 063 015	(1 670)	(22 949 981)	139 493 733
Community	5 462 072	1 264 894	-	(396 987)	6 329 979
Other fixed assets	3 804 781	333 877	(1 053 024)	(760 809)	2 324 825
Capital work in progress	38 181 135	19 834 350	-	-	58 015 485
Heritage	2 947 824	-	-	-	2 947 824
	<b>249 122 962</b>	<b>38 901 110</b>	<b>(1 054 694)</b>	<b>(25 932 632)</b>	<b>261 036 746</b>

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
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### 8. PROPERTY, PLANT AND EQUIPMENT (continued)

#### Revaluations

The effective date of the revaluations was 30 June 2009. Revaluations were performed by an independent valuer, the Aurecon Group and they are not connected to the municipality.

The Infrastructure assets, Community assets and Land and Buildings have been valued at depreciated replacement cost (DRC).

The current replacement cost which is used to calculate the DRC has two inputs: the size of the asset and the unit cost of the asset, which is associated to the asset type. Unit cost models developed by the valuer were used to determine the unit cost for each asset type using statistical analysis. These are used to determine the values of the assessed assets. This method of valuation by unit costs is consistent with the approach advocated by the South African Local Asset Management Guidelines.

The municipal buildings were evaluated using a 19 point per floor visual condition assessment methodology and current and depreciated replacement values determined using predetermined models incorporating deterioration models.

Assumption 1: The construction year is estimated using sources in the following order of precedence: available technical records, interviewing of operations staff, comparison with adjacent infrastructure. When the date of acquisition is not known and the construction year is estimated, the acquisition date is assumed to be on the 1st day of January in the year of construction

Assumption 2: The consumption of benefits of infrastructure assets are predominantly uniform over the life of the asset. The depreciation is therefore assumed to be straight line for all infrastructure assets except buildings (which uses a parabolic curve)

Assumption 3: The residual value of all civil infrastructure assets is negligible as there is no open market for the materials used in civil infrastructure and the realisable value is very small. The scrap value of mechanical and electrical plant is also negligible.

Other changes, movements for an amount of R 1 140 351 reflected in the reconciliation note for 2012 is a result of the dam that has been reclassified as Infrastructure asset in order to comply with GRAP 17.

Other changes, movements for an amount of R 1 658 648 in infrastructure is made up as follows: R 1 140 351 which has been explained in the above paragraph: R 518 297 relates to 2011 Infrastructure assets that were capitalised in 2012: R 33 025 relates to Other assets that were disposed in 2011.



**UMZIMKHULU LOCAL MUNICIPALITY**

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

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**9. INTANGIBLE ASSETS**

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	715 593	(595 683)	119 910	1 010 531	(815 423)	195 108

**Reconciliation of intangible assets - 2012**

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	195 108	12 513	(3 307)	(84 404)	119 910

**Reconciliation of intangible assets - 2011**

	Opening balance	Additions	Amortisation	Total
Computer software	325 057	3 793	(133 742)	195 108

**10. PAYABLES FROM EXCHANGE TRANSACTIONS**

Payments received in advanced - contract in process	145 195	144 845
Workmans compensation	36 008	-
UIF accrued expense	356 011	409 422
Accrued leave pay	1 651 568	1 493 127
Accrued expenses	887 851	1 578 728
Deposits received	12 934	(80 028)
Retentions	4 866 043	1 353 478
	<b>7 955 610</b>	<b>4 899 572</b>

**11. UNSPENT CONDITIONAL GRANTS AND RECEIPTS**

Unspent conditional grants and receipts comprises of:

Pound Grant	-	1 000 000
MIG Fund	-	3 027 259
MSIG Fund	-	59
Neighbourhood Grant	4 733 934	1 402 614
Electrification Grant	1 442 417	1 090 054
Small Town Development	528 261	-
	<b>6 704 612</b>	<b>6 519 986</b>

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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### 12. PROVISIONS

#### Reconciliation of provisions - 2012

	Opening Balance	Interest	Total
Landfill site provision	1 155 214	124 407	1 279 621

#### Reconciliation of provisions - 2011

	Opening Balance	Interest	Total
Landfill site provision	1 105 097	50 117	1 155 214

The landfill site provision relates to the costs of rehabilitating the landfill site when it reaches the end of its useful life in 2013 and has been discounted to reflect its present value. The discounting rate used is 5,5% (2011 : 4.2%).

### 13. REVALUATION RESERVE

Opening balance	107 340 500	107 340 500
Movements during the year	(22 350 571)	-
<b>Closing balance</b>	<b>84 989 929</b>	<b>107 340 500</b>

### 14. HOUSING OPERATING ACCOUNT

Opening balance	28 032 032	28 032 032
Movements during the year	1 019 906	-
<b>Closing balance</b>	<b>29 051 938</b>	<b>28 032 032</b>

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
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### 15. ACCUMULATED SURPLUS

#### Ring-fenced internal funds and reserves within accumulated surplus - 2012

	Opening balance	Adjustments during the year	Government grant reserve	Deferred charges	Surplus for the year	Total
	113 171 958	-	12 220 762	32 878 370	29 894 562	188 165 652
Offsetting of depreciation	-	22 350 571	-	-	-	22 350 571
Net movements in accumulated surplus	-	53 405	-	-	-	53 405
	<b>113 171 958</b>	<b>22 403 976</b>	<b>12 220 762</b>	<b>32 878 370</b>	<b>29 894 562</b>	<b>210 569 628</b>

#### Ring-fenced internal funds and reserves within accumulated surplus - 2011

Opening balance	Government grant reserve	Deferred charges	Surplus for the year	Total
105 337 714	12 220 762	32 878 370	8 854 150	159 290 996

### 16. PROPERTY RATES

#### Rates raised

Residential	799 267	1 505 503
Commercial	1 096 663	2 271 129
Government	2 109 740	2 427 474
Farmers	-	1 234 342
	<b>4 005 670</b>	<b>7 438 448</b>

#### Valuations

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Different rate randage are charged for the various categories of ratepayers. No additional rebates were granted to any categories of ratepayers except for any exemptions and compulsory phasing-in of certain rates as contained in Council's approved Rates Policy.

Old age pensioners were granted 100% subsidy as categorised as indigents and pensioners over 65 years were granted 25% rebate as per Council's approved Rates policy.State properties were granted a 10% rebate and Public Service infrastructures were granted 30% rebate as per Council's approved policy.Rates are levied monthly in 12 equal instalmentspayable on a monthly basis.Interest is charged at 15.5% on the outstanding balance of service charges.

### 17. SERVICE CHARGES

Refuse removal	1 148 332	651 550
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# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
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### 18. GOVERNMENT GRANTS AND SUBSIDIES

Equitable share	74 978 000	59 410 625
Government grant - operating revenue	4 374 459	2 518 595
Government grant - capital revenue	69 456 010	37 448 114
	<b>148 808 469</b>	<b>99 377 334</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

#### Pound Grant

Balance unspent at beginning of year	1 000 000	-
Current-year receipts	-	1 000 000
Conditions met - transferred to revenue	(1 000 000)	-
	<b>-</b>	<b>1 000 000</b>

Conditions still to be met - remain liabilities (see note 11).

The purpose of this grant is for construction of Pound.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

#### Sport Grant

Current-year receipts	150 000	-
Conditions met - transferred to revenue	(150 000)	-
	<b>-</b>	<b>-</b>

The purpose of this grant is for sport development.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
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### 18. GOVERNMENT GRANTS AND SUBSIDIES (continued)

#### MIG Fund (Capital)

Balance unspent at beginning of year	3 027 259	-
Current-year receipts	39 688 000	26 795 000
Conditions met - transferred to revenue	(43 732 355)	(23 767 741)
	<b>(1 017 096)</b>	<b>3 027 259</b>

Conditions still to be met - remain liabilities (see note 11).

The purpose of this grant is for infrastructure development.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

#### MSIG Fund

Balance unspent at beginning of year	59	-
Current-year receipts	790 000	800 000
Conditions met - transferred to revenue	(790 059)	(799 941)
	<b>-</b>	<b>59</b>

Conditions still to be met - remain liabilities (see note 11).

The purpose of this grant is for building in house capacity and to stabilise institutional and government systems.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

#### FMG

Current-year receipts	1 450 000	-
Conditions met - transferred to revenue	(1 450 000)	-
	<b>-</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 11).

Provide explanations of conditions still to be met and other relevant information.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
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### 18. GOVERNMENT GRANTS AND SUBSIDIES (continued)

#### Neighbourhood Grant

Balance unspent at beginning of year	1 402 614	-
Current-year receipts	16 570 000	10 000 000
Conditions met - transferred to revenue	(13 238 680)	(8 597 386)
	<b>4 733 934</b>	<b>1 402 614</b>

Conditions still to be met - remain liabilities (see note 11).

The purpose of this grant is for property development in townships, upgrading community facilities and attracting private sector funding and input.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : We experienced delays with the approval of EIA for Road 2130 where there is wetland.

#### Electrification Grant

Balance unspent at beginning of year	1 090 054	-
Current-year receipts	10 000 000	5 768 000
Conditions met - transferred to revenue	(9 647 637)	(4 677 946)
	<b>1 442 417</b>	<b>1 090 054</b>

Conditions still to be met - remain liabilities (see note 11).

The purpose of this grant is to address electrification backlog of permanently occupied residential dwellings and installation of bulk infrastructure and rehabilitation of electrification infrastructure.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : We experience delays by Eskom in conducting surveys for the villages that were to be electrified.

#### Small Town Development

Current-year receipts	4 350 000	-
Conditions met - transferred to revenue	(3 821 739)	-
	<b>528 261</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 11).

The purpose of this grant is for town development or upgrading.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : The project is on retention which is due to expire at the end of July 2012.

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
<b>19. INTEREST EARNED</b>		
Housing operating account	1 019 906	-
Loans	-	21 984
Bank	1 647 061	773 177
	<b>2 666 967</b>	<b>795 161</b>
<b>20. OTHER REVENUE</b>		
Advertising income	52 995	35 113
Arts and culture library subsidy	301 632	-
Building plans and servitudes	81 939	60 515
Business tariffs	5 858	-
Cemetery fees	11 608	7 487
Councillor allowance top up sub	5 426	-
Councillor cellphone reimbursement	88	2 640
Dumping fees	28 800	8 496
Hall fees	13 807	15 777
PDA applications	1 316	-
Refund income	234 677	39 054
Repayment of debt	12 222	-
Sundry income	641 088	394 036
	<b>1 391 456</b>	<b>563 118</b>
Sundry income includes fees from tender documents.		
<b>21. RENTAL OF FACILITIES AND EQUIPMENT</b>		
Facilities and equipment	593 033	492 190

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
<b>22. EMPLOYEE RELATED COSTS</b>		
Basic	21 234 270	17 357 616
Bonus	1 279 512	714 606
Medical aid - municipal contributions	690 958	681 498
UIF	195 119	158 169
Bargaining council	5 494	4 854
Pension fund - company contributions	1 882 857	1 650 427
Travel and telephone allowances	908 880	1 065 773
Overtime payments	104 654	8 984
Acting allowances	281 054	57 844
Housing benefits and allowances	760 485	678 205
	<b>27 343 283</b>	<b>22 377 976</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	390 997	513 377
Travel Allowance	167 502	213 907
Contributions to UIF, Medical and Pension Funds	89 055	102 675
Housing Allowance	8 689	25 669
Cellphone	13 500	18 000
Backpay	-	13 258
Leave Paid Out	160 385	-
	<b>830 128</b>	<b>886 886</b>
<b>Remuneration of Chief Finance Officer</b>		
Annual Remuneration	411 481	380 035
Travel Allowance	171 450	158 348
Contributions to UIF, Medical and Pension Funds	67 576	63 339
Housing Allowance	33 286	31 669
Cellphone	12 000	12 000
Backpay	16 080	9 814
Acting Allowance	59 177	-
Bonus Salary	57 888	-
Leave Paid Out	130 905	-
	<b>959 843</b>	<b>655 205</b>
<b>Remuneration of Infrastructure and Engineering Manager</b>		
Annual Remuneration	399 431	380 035
Travel Allowance	166 429	158 348
Contributions to UIF, Medical and Pension Funds	68 069	63 339
Housing Allowance	33 286	31 669
Cellphone	12 000	12 000
Backpay	16 080	9 814
	<b>695 295</b>	<b>655 205</b>



# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
<b>22. EMPLOYEE RELATED COSTS (continued)</b>		
<b>Remuneration of Corporate Services Manager</b>		
Annual Remuneration	167 195	309 694
Travel Allowance	69 680	129 039
Contributions to UIF, Medical and Pension Funds	42 414	51 616
Housing Allowance	-	25 808
Cellphone	5 000	10 000
Backpay	-	9 627
Leave Paid Out	-	109 184
	<b>284 289</b>	<b>644 968</b>
<b>Remuneration of Social Services Manager</b>		
Annual Remuneration	391 814	372 788
Travel Allowance	163 256	155 328
Contributions to UIF, Medical and Pension Funds	58 772	55 918
Housing Allowance	39 181	37 279
Cellphone	12 000	12 000
Backpay	15 774	9 627
Bonus Salary	56 785	-
	<b>737 582</b>	<b>642 940</b>
<b>Remuneration of Planning and Development Manager</b>		
Annual Remuneration	198 742	363 078
Travel Allowance	82 825	151 282
Contributions to UIF, Medical and Pension Funds	46 522	60 513
Housing Allowance	3 155	30 256
Cellphone	5 000	12 000
Backpay	-	9 627
Leave Payout	-	97 053
	<b>336 244</b>	<b>723 809</b>
<b>23. REMUNERATION OF COUNCILLORS</b>		
Mayor	597 326	538 227
Deputy mayor	477 860	430 581
Executive members	1 544 033	1 460 646
Speaker	457 775	413 098
Chief Whip	427 409	387 280
Councillors' basic allowance	3 935 919	2 542 416
Councillors' travel allowance	1 341 152	1 011 019
Councillors' pension fund contribution and UIF	572 157	683 488
Councillors' medical aid contribution	233 611	242 510
Councillors' cellphone allowances	990 592	754 309
	<b>10 577 834</b>	<b>8 463 574</b>
<b>Ward committee expenses</b>		

Councillors' basic allowance includes ward committee expenses of R432 145 (2011 : R69 160).

# UMZIMKHULU LOCAL MUNICIPALITY

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
<b>24. DEBT IMPAIRMENT</b>		
Debt impaired	1 429 460	-
Contributions to debt impairment provision	2 904 071	3 317 049
	<b>4 333 531</b>	<b>3 317 049</b>
Contributions to debt impairment relates to increase in bad debt provision as referred to in note 5.		
<b>25. DEPRECIATION AND AMORTISATION</b>		
Property, plant and equipment	30 586 334	25 932 631
Investment property	30 166	30 166
Intangible assets	84 404	133 742
	<b>30 700 904</b>	<b>26 096 539</b>
<b>26. FINANCE COSTS</b>		
Landfill site	124 407	50 116
<b>27. OPERATING SURPLUS</b>		
Operating surplus for the year is stated after accounting for the following:		
<b>Operating lease charges</b>		
Motor vehicles		
• Contractual amounts	763 325	806 926
Equipment		
• Contractual amounts	408 359	307 064
	<b>1 171 684</b>	<b>1 113 990</b>
Scrapping loss on other assets	(33 946)	-
Loss on sale of intangible assets	(3 307)	-
Amortisation on intangible assets	84 404	133 742
Depreciation on property, plant and equipment	30 586 334	25 932 631
Depreciation on investment property	30 166	30 166
Employee costs	37 921 117	30 841 550
<b>28. REVENUE</b>		
Property rates	4 005 670	7 438 448
Service charges	1 148 332	651 550
Rental of facilities and equipment	593 033	492 190
Interest earned – outstanding receivables	542 928	425 436
Government grants and subsidies	148 808 469	99 377 334
Motor vehicle licences	639 842	488 270
	<b>155 738 274</b>	<b>108 873 228</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	1 148 332	651 550
Rental of facilities and equipment	593 033	492 190
Interest earned - outstanding receivables	542 928	425 436
	<b>2 284 293</b>	<b>1 569 176</b>

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
<b>28. REVENUE (continued)</b>		
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
Property rates	4 005 670	7 438 448
Government grants and subsidies	148 808 469	99 377 334
Motor vehicle licences	639 842	488 270
	<b>153 453 981</b>	<b>107 304 052</b>
<b>29. GENERAL EXPENSES</b>		
Administration cost	-	1 650 000
Advertising	347 289	367 025
Bank charges	91 348	44 288
Cleaning	519 062	488 198
Consulting and professional fees	7 924 363	7 335 903
Donations	5 865 748	-
Entertainment	2 649 448	1 769 797
Equipment hire	1 658 425	1 077 582
Fire brigade	2 273 016	1 336 544
Fuel and oil	606 499	345 083
Grant expenditure	376 043	1 346 124
IT expenses	2 342 704	1 829 723
Insurance	497 708	257 749
Lease rentals on operating lease	1 171 684	1 113 990
Leave provision	592 564	227 810
Motor vehicle expenses	524 852	321 747
Office equipment expenses	336 656	160 032
Other expenses	14 730 376	9 735 011
Printing and stationery	1 873 622	1 175 106
Promotions and sponsorships	243 724	170 168
Security (guarding of municipal property)	3 437 304	2 373 270
Skills development levy	325 289	277 901
Staff welfare	255 490	363 594
Subscriptions and membership fees	211 021	214 169
Telephone and fax	1 592 059	1 209 451
Training	611 106	620 242
Transport and freight	1 298 514	596 504
Uniforms	81 786	16 449
Water	89 998	-
Workmens compensation	36 008	36 008
	<b>52 563 706</b>	<b>36 459 468</b>

# UMZIMKHULU LOCAL MUNICIPALITY

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
<b>30. CASH GENERATED FROM OPERATIONS</b>		
Surplus	29 894 562	8 854 150
<b>Adjustments for:</b>		
Depreciation and amortisation	30 700 904	26 096 539
Loss on scrapping of assets	37 253	-
Debt impairment	4 333 531	3 317 049
Movements in retentions	-	1 353 478
Movements in provisions	124 407	50 117
Adjustments to accumulated surplus	53 405	(6 765 916)
Movement in housing funds	-	1 108 325
Other non-cash items	(900 795)	-
<b>Changes in working capital:</b>		
Receivables from exchange transactions	96 972	770 483
Other receivables from non-exchange transactions	(1 017 766)	-
Receivables from non-exchange transactions	(1 716 368)	(111 232)
Payables from exchange transactions	3 056 045	(34 305)
Vat	(97 983)	2 124 598
Unspent conditional grants and receipts	184 626	6 076 762
	<b>64 748 793</b>	<b>42 840 048</b>

### 31. OPERATING LEASE

Photocopy machines:	R408 359
Vehicles:	R763 325
Total:	R1 171 684

Photocopy Machines : The Municipality has entered into a monthly agreement with Kokstad Copiers on the rental of the machines. The contingent rent on these machines shall be R0.15 per copy in excess of 500 copies/prints per month. The price increment is 0%.

Motor Vehicles (EQSTRA Fleet Management) : The Municipality has entered into a lease agreement for vehicles on the 15/10/2008. Contingent rent is based on every excess kilometre which does not exceed the total kilometres by more than 10% which is charged according to the excess kilometre schedule and additionally 2,5 times the excess kilometre charge rate as set out in the schedule is charged on the excess kilometres exceeding more than 10% of total kilometres.

### 32. COMMITMENTS

#### Authorised capital expenditure

##### Authorised and contracted

• Community	14 374 004	-
• Infrastructure	13 706 974	18 874 368
	<b>28 080 978</b>	<b>18 874 368</b>

##### Authorised but not contracted

• Community	3 405 900	-
• Infrastructure	43 500 000	35 813 632
	<b>46 905 900</b>	<b>35 813 632</b>

### 33. CONTINGENCIES

Management is not aware of any possible obligations that may exist at year end.

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
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### 34. COMPARATIVE FIGURES

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

#### Statement of financial position

Assets in construction	-	1 353 478
Retentions	-	(1 353 478)

### 35. RISK MANAGEMENT

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the municipal manager. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The municipal manager provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

### 36. FRUITLESS AND WASTEFUL EXPENDITURE

Opening balance	408 496	-
Workmens compensation - interest and penalties on late payments	-	408 496
Condoned and written off by Council	(408 496)	-
	<b>-</b>	<b>408 496</b>

### 37. UNAUTHORISED EXPENDITURE

Personnel costs - contracted employees	2 775 026	-
Depreciation due to revaluation of assets to comply with GRAP standards	26 524 326	-
General expenditure due to donations made to Eskom	3 933 562	-
	<b>33 232 914</b>	<b>-</b>

### 38. IRREGULAR EXPENDITURE

Opening balance	2 158 341	-
Add: Irregular Expenditure - current year	748 721	-
Transactions with suppliers in the service of the state	-	982 642
Quotations not obtained for procurement of goods and services	-	368 960
Tender process not followed for the extension of services rendered	-	806 739
Condoned and written off by the Council	(2 158 341)	-
	<b>748 721</b>	<b>2 158 341</b>

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
<b>38. IRREGULAR EXPENDITURE (continued)</b>		
<b>Details of irregular expenditure – current year</b>		
Transactions with suppliers in the service of the state contrary to SCM regulations	462 745	-
Transactions with suppliers in the services of the state contrary to SCM regulations	264 246	-
Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers	21 730	-
	<b>748 721</b>	<b>-</b>
<b>39. RECONCILIATION BETWEEN BUDGET AND STATEMENT OF FINANCIAL PERFORMANCE</b>		
Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:		
Net surplus per the statement of financial performance	29 894 562	8 854 150
<b>Adjusted for:</b>		
Increase in depreciation on revalued assets	24 711 939	25 551 396
Increase/(decrease) in general expenses	13 590 308	(8 031 803)
Decrease in government grant funding	1 600 872	12 918 693
Overestimation of other income	10 639 438	11 506 882
Decrease/(Increase) in property rates	1 688 121	(1 438 448)
Reduction of repairs and maintenance	(5 804 769)	(1 819 769)
Other variances	(1 232 219)	(275 102)
<b>Net surplus per approved budget</b>	<b>75 088 252</b>	<b>47 265 999</b>

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
<b>40. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT</b>		
<b>Contributions to organised local government</b>		
Current year	192 231	192 231
Amount paid	(192 231)	(192 231)
	-	-
<b>Audit fees</b>		
Current year	2 018 444	1 385 044
Amount paid	(2 018 444)	(1 385 044)
	-	-
<b>PAYE and UIF</b>		
Opening balance	-	(10 568)
Current year payroll deductions	5 275 714	4 795 388
Amount paid - current year	(5 275 714)	(4 795 388)
Amount paid - previous years	-	10 568
	-	-
<b>Pension and Medical Aid Deductions</b>		
Current year payroll deductions and council contributions	6 204 540	5 611 375
Amount paid - current year	(6 204 540)	(5 611 375)
	-	-
<b>VAT</b>		
Vat receivable	1 957 289	1 859 306

### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
F Nene	466	4 787	5 253
<b>30 June 2011</b>			
	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
J S Msizi	777	54	831
F Nene	493	5 524	6 017
	<b>1 270</b>	<b>5 578</b>	<b>6 848</b>

# UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
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### 41. PRIOR PERIOD ERRORS

During the current financial year the municipality corrected the fundamental error. Retention creditors were overstated by R 1 353 478 and the Work-in-progress were understated by the same amount. This error had no effect on accumulated surplus.

The correction of the error(s) results in adjustments as follows:

#### Statement of financial position

Property, plant and equipment	-	1 353 478
Payables from exchange transactions	-	(1 353 478)

### 42. DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the municipal manager may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the council and includes a note to the annual financial statements.

Award of more than R200 000 to person in the service of the state contrary to SCM regulations amounted to R426 588.



Appendix A

Umzimkhulu Municipality: Schedule of External Loans as at 30 June 2011

	Balance at 30 June 2010	Redeemed during the period	Balance at 30 June 2011	Carrying value of Asset at 30 June 2011
	R	R	R	R
LEASE LIABILITY				
	0	0	0	0
TOTAL EXTERNAL LOANS	0	0	0	0

APPENDIX B

UMZIMKHULU MUNICIPALITY: ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2012

	COST					ACCUMULATED DEPRECIATION					Carrying Value
	Opening Balance	Additions	Disposals	Other changes	Closing Balance 2012	Opening Balance	Depreciation	Other changes	Disposals	Closing Balance 2012	
	R	R	R	R	R	R	R	R	R	R	
<b>Infrastructure</b>											-69,663,251
Roads	165,494,734	29,543,969		1,658,648	196,697,351	43,132,154	26,531,099			69,663,251	127,034,100
Stormwater	14,994,083				14,994,083	1,271,595	635,798			1,907,393	13,086,690
Bridges	3,583,473				3,583,473	174,807	87,404			262,213	3,321,260
<b>Community Assets</b>											
Parks and Sportsgrounds	7,123,954	12,909,574			20,033,528	793,975	759,763			1,553,737	18,479,790
<b>Land &amp; Buildings</b>					-						
Land	611,000				611,000	-	-			-	611,000
Buildings	46,947,798	2,102,373		-1,140,351	47,909,820	2,172,706	1,107,807			3,280,514	44,629,306
Taxi Ranks	7,904,407				7,904,407	1,365,599	682,800			2,048,399	5,856,008
Other assets	5,421,152	981,975	-562,232	-51,892	5,789,003	3,096,327	781,664	-18,867	-507,235	3,351,889	2,437,114
Heritage asset	2,947,824				2,947,824		-			-	2,947,824
<b>Capital Work in Progress</b>	58,015,485	13,330,099			71,345,584	-	-	-	-	-	71,345,584
<b>Total</b>	313,043,909	58,867,990	-562,232	466,405	371,816,072	52,007,163	30,586,334	-18,867	-507,235	82,067,396	289,748,676

APPENDIX C

UMZIMKHULU MUNICIPALITY: SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2012

	Cost					Accumulated Depreciation					Carrying value
	Opening balance	Additions	Disposals	Other changes	Closing balance	Opening balance	Depreciation	Other Changes	Disposals	Closing balance	
	R	R	R		R	R	R		R	R	R
Executive and Council	11,520,016	200,151			11,720,167	546,075	296,687			842,763	10,877,404
Finance & Admin	30,114,824	223,698	-562,232	-51,892	29,724,398	2,933,204	679,017	-18,867	-507,235	3,086,119	26,638,279
Planning & Development	227,457,704	38,958,836		518,297	266,934,837	45,012,200	27,561,346			72,573,546	194,361,291
Community and social services	43,951,365	19,485,305			63,436,670	3,515,684	2,049,284			5,564,969	57,871,701
<b>Total</b>	<b>313,043,909</b>	<b>58,867,990</b>	<b>-562,232</b>	<b>466,405</b>	<b>371,816,072</b>	<b>52,007,163</b>	<b>30,586,335</b>	<b>-18,867</b>	<b>-507,235</b>	<b>82,067,396</b>	<b>289,748,676</b>

APPENDIX D

UMZIMKHULU MUNICIPALITY: SEGMENTAL INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

2,011 Actual Revenue R	2,011 Actual Expenses R	2,011 Surplus/ (Deficit) R		2,012 Actual Revenue R	2,012 Actual Expenses R	2,012 Surplus/ (Deficit) R
2,641	21,361,778	-21,359,137	COUNCIL AND MUNICIPAL MANAGER	14,330,385	19,558,581	-5,228,196
71,021,356	26,901,551	44,119,805	FINANCE AND ADMINISTRATION	49,360,215	37,813,257	11,546,958
38,035,931	42,851,207	-4,815,277	PLANNING & INFRASTRUCTURE	85,982,311	56,067,933	29,914,378
1,171,580	10,262,820	-9,091,240	COMMUNITY AND SOCIAL SERVICES	9,553,590	16,950,770	-7,397,180
110,231,507	101,377,356	8,854,151	<b>TOTAL</b>	<b>159,226,501</b>	<b>130,390,541</b>	<b>28,835,960</b>

# APPENDIX E

## UMZIMKHULU MUNICIPALITY: ACTUAL VERSUS BUDGET FOR THE YEAR ENDED 31 JUNE 2012

	2012	2012	2012	2012
	Budget (R)	Actual (R)	Variance (R)	Variance (%)
REVENUE				
PROPERTY RATES	5,693,791	4,005,670	1,688,121	30%
SERVICE CHARGES	300,000	1,148,332	(848,332)	-283%
RENTAL INCOME	500,000	593,033	(93,033)	-19%
LICENCES AND PERMITS	200,000	409,236	(209,236)	-105%
GOVERNMENT GRANTS	149,302,630	148,808,468	494,162	0%
MOTOR VEHICLE LICENCES	200,000	230,606	(30,606)	-15%
OTHER INCOME	12,795,000	2,384,095	10,410,905	81%
INTEREST ON INVESTMENTS	2,200,000	2,666,967	(466,967)	-21%
<b>Total Revenue</b>	<b>171,191,421</b>	<b>160,246,407</b>	<b>10,945,014</b>	<b>6%</b>

	2,012	2,012	2,012	2012
	Budget (R)	Actual (R)	Variance (R)	Variance (%)
EXPENSES				
PERSONNEL COSTS	35,146,091	37,921,117	(2,775,026)	-8%
DEPRECIATION	4,176,578	30,700,904	(26,524,326)	-635%
BAD DEBTS		4,333,531		0%
REPAIRS AND MAINTENANCE	13,503,347	4,670,927	8,832,420	65%
GENERAL EXPENDITURE	48,791,804	52,725,366	(3,933,562)	-8%
<b>TOTAL EXPENSES</b>	<b>101,617,820</b>	<b>130,351,845</b>	<b>(24,400,494)</b>	<b>-24%</b>
<b>NET SURPLUS /(DEFICIT) FOR THE YEAR</b>	<b>69,573,601</b>	<b>29,894,562</b>	<b>35,345,508</b>	<b>51%</b>

Appendix F

Umzimkhulu Municipality: Schedule of Conditional Grants as at 30 June 2011

<b>Funder</b>	<b>Name of the Grant</b>	<b>Unspent at the beginning of the Year 1 July 2012</b>	<b>Received during the Year</b>	<b>Expended during the Year</b>	<b>Unspent at the end of the Year 30 June 2012</b>
		R	R	R	R
National Government-National Treasury	FMG		1,450,000	1,450,000	-
National Government-Cogta	MSIG	59	790,000	790,059	-
National Government-Cogta	MIG	3,027,259	39,688,000	42,715,259	-
National Government-National Treasury	Neighbourhood Grant	1,402,614	16,570,000	13,238,680	4,733,934
National Government-DME	Electrification Grant	1,090,054	10,000,000	9,647,637	1,442,417
Provincial- KZN Sport and Recreation	Sport Grant	-	150,000	150,000	-
Provincial-KZN Cogta	Pound Grant	1,000,000	-	1,000,000	-
Provincial- KZN Cogta	Small Town Development	-	4,350,000	4,069,061	528,261
	<b>TOTAL</b>	<b>6,519,986</b>	<b>72,998,000</b>	<b>73,060,696</b>	<b>6,704,612</b>